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August 18, 2008

AGENDA ITEM 11a

TO: MEMBERS OF THE INVESTMENT COMMITTEE

- I. SUBJECT:** Peace Officer Firefighter Supplemental Plan Update
- II. PROGRAM:** Supplemental Income Plans
- III. RECOMMENDATION:** Information only. Wilshire Opinion letter is shown in Attachment 1.

IV. ANALYSIS:

The Supplemental Income Plans (SIP) offers a statutorily authorized supplemental retirement plan as a complement to the CalPERS pension plan for State Peace Officers. Subject to terms agreed upon in collective bargaining, eligible employees receive employer paid contributions at 2 percent of their salary. Employer contributions are sent by the State and deposited into an account for the benefit of the employee. Employee contributions are not allowed.

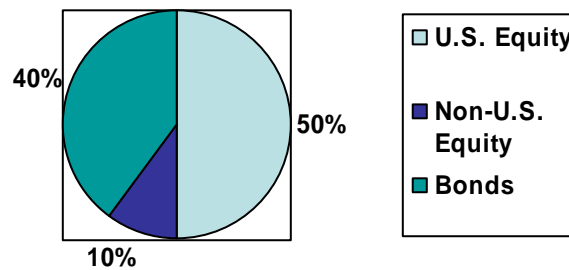
The POFF Supplemental Plan has been invested since July 1999 in a State Street Global Advisor moderate allocation fund with an annualized net of fees return of 2.79 percent since inception. Plan growth has been sustained with \$348 million in assets and 46,497 participants as of June 30, 2008.

As part of the SIP enhancements, the POFF Supplemental Plan customer service was improved in the spring of 2008 with a new informational website and customer service call center. Staff has been working with CitiStreet, the current Third Party Administrator, to enhance these services even more by adding participant account balance data available in the fall of 2008.

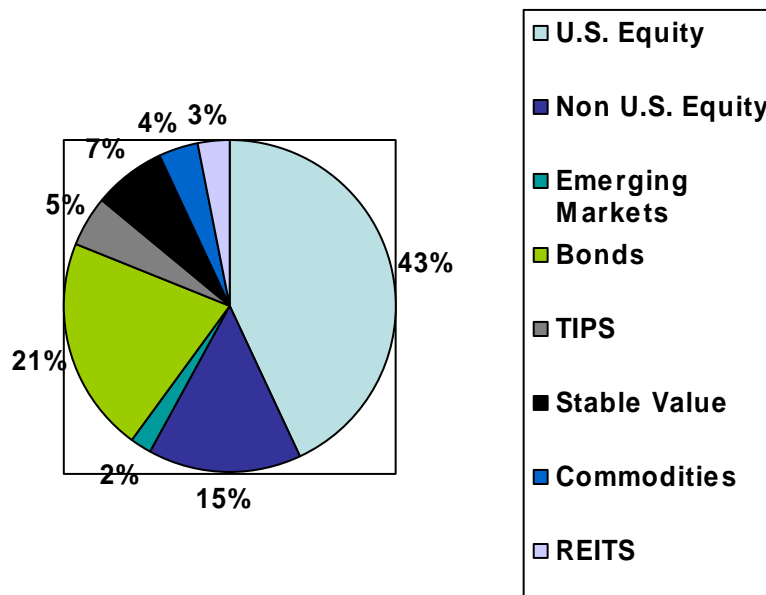
With the creation of the custom CalPERS Asset Allocation funds for SIP as presented in the August 2008 agenda item 3a -- Adoption of Policy on Supplemental Income Plans CalPERS Risk-Based and Target Retirement Date Funds, staff is adopting the CalPERS Moderate Allocation fund for the POFF

Supplemental Plan in replacement of the State Street Global Advisor fund.
Below is a comparison of the allocation of these funds.

Current SSgA Moderate Allocation Fund



CalPERS Moderate Allocation Fund



As can be seen from the charts, the CalPERS fund offers more asset classes providing for greater diversification compared to the current fund. In the long term, the CalPERS fund is designed to offer better risk adjusted returns and broader diversification for participants.

In addition to the fund change on October 3, 2008, participant fees will be lowered to 98 basis points from 118 basis points and the new website will be

rolled out. This fee reduction is possible due to the lower expense of using CalPERS Investment Office staff.

To prepare for this change in early September, participants will be mailed information about the fund change, the fee reduction and the website enhancements. On July 22, 2008, staff met with representatives of the California Correctional Peace Officers Association (CCPOA) and the Department of Personnel Administration (DPA) to present these enhancements. Both DPA and CCPOA are supportive of the changes. CCPOA has offered to help communicate the changes to their membership.

V. STRATEGIC PLAN:

This agenda's initiatives address multiple CalPERS Strategic Plan Goals including:

- Goal (VI) to Administer pension benefit services in a customer oriented and cost effective manner;
- Goal (VII) to Enable and educate members and employers to make informed decisions leading to a predictable and secure retirement futures; and
- Goal (IX) to Achieve long-term, sustainable, risk adjusted returns.

VI. RESULTS/COSTS:

The SIP is a self sustaining program funded by participant fees. Participant fees will be reduced while benefits are improved for POFF Supplemental Plan participants.

Geraldine Jimenez
Division Chief
Supplemental Income Plans

Anne Stausboll
Interim Chief Investment Officer